

Message Text

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PAGE 01 OTTAWA 02750 072102Z

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SUBJ: PRESS INQUIRY ABOUT POTASH

1. FRED HARRISON, OTTAWA CORRESPONDENT FOR REGINA LEADER-POST AND SASKATOON STAR-PHOENIX, REQUESTED INTERVIEW WITH AMBASSADOR AND SUBMITTED LIST OF QUESTIONS DEALING WITH USG REACTIONS TO SASKATCHEWAN POTASH DEVELOPMENTS. AMBASSADOR WILL NOT REPEAT NOT GRANT INTERVIEW BUT EMBASSY HAS PREPARED INFORMATION IN RESPONSE TO QUESTIONS FOR BRIEFING HARRISON BY PAO OR IO.

2. IN VIEW OF SENSITIVITY OF POTASH ISSUE AND POSSIBILITY THAT HARRISON'S REPORTING WOULD RECEIVE WIDE COVERAGE, EMBASSY IS SUBMITTING FOR DEPARTMENT'S COMMENTS HARRISON'S QUESTIONS AND OUR PROPOSED REPLIES. ALSO, ONE OF HARRISON'S QUESTIONS (NO. G) REQUIRES BACKGROUND INFORMATION ON ANTI-TRUST MATTERS THAT EMBASSY DOES NOT POSSESS.

3. FOLLOWING ARE HARRISON'S QUESTIONS (Q) AND OUR PROPOSED REPLY (A):

A. Q: IN WHAT WAYS DOES SASKATCHEWAN'S POTASH POLICY AFFECT OR THREATEN TO AFFECT UNITED STATES
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PAGE 02 OTTAWA 02750 072102Z

INTERESTS?

A: ABOUT 75 PERCENT OF U.S. POTASH REQUIREMENTS ARE MET BY IMPORTS FROM SASKATCHEWAN. CONCERN HAS BEEN EXPRESSED BY OUR AGRICULTURAL INTERESTS AND IN THE U.S. CONGRESS THAT PROVINCIAL OWNERSHIP OF A SUBSTANTIAL PORTION OF THE INDUSTRY COULD GIVE RISE TO CARTEL-LIKE ACTION WITH RESPECT TO SUPPLY AND PRICES WHICH COULD ADVERSELY AFFECT U.S. AGRICULTURE. OF COURSE, THERE IS ALSO CONCERN ABOUT THE IMPACT OF PROVINCIAL POLICY ON THE INTERESTS OF U.S. INVESTORS WHO CONTRIBUTED SO MUCH TO THE DEVELOPMENT OF THE POTASH INDUSTRY IN THE PROVINCE AND WHO NOW FIND THEIR OPERATIONS THREATENED BY POSSIBLE EXPROPRIATION.

MORE BROADLY, IN AN INTERDEPENDENT WORLD THE U.S. HAS A VITAL INTEREST IN A STRONG AND PROSPEROUS CANADA ON ITS NORTHERN BORDER AND ANYTHING WHICH MIGHT DISCOURAGE THE INFLOW OF INVESTMENT CAPITAL WHICH IS SO IMPORTANT TO HEALTHY ECONOMIC DEVELOPMENT HERE MUST NATURALLY BE OF CONCERN.

B. 1: WOULD U.S. INTERESTS STILL BE THREATENED IF SASKATCHEWAN FOUND THE EXPROPRIATION ROUTE UNNECESSARY AND SUCCESSFULLY NEGOTIATED PURCHASES OF SUFFICIENT POTASH PROPERTY? IN OTHER WORDS, IS IT PROVINCIAL OWNERSHIP OR THE MEANS TO THAT END WHICH IS FOUND MORE OBJECTIONABLE?

A. NEGOTIATED PURCHASES ARE NOT TRULY "NEGOTIATED" IF THE ONLY ALTERNATIVE IS EXPROPRIATION. THE U.S. GOVERNMENT'S VIEW ON EXPROPRIATION IS CLEAR: EXPROPRIATION SHOULD BE FOR A PUBLIC PURPOSE, NEITHER ARBITRARY NOR DISCRIMINATORY, AND ACCOMPANIED BY PAYMENT OF COMPENSATION WHICH IS PROMPT, EFFECTIVE AND ADEQUATE BY INTERNATIONAL STANDARDS.

C. Q: DOES THE U.S. HAVE AT ITS COMMAND ANY DIPLOMATIC, ECONOMIC OR LEGAL TOOL, OTHER THAN MORAL SUASION, WHICH COULD BE USED TO EITHER BLOCK EXPROPRIATION OF AMERICAN-OWNED INTERESTS ABROAD OR TO ENSURE FAIR LIMITED OFFICIAL USE

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PAGE 03 OTTAWA 02750 072102Z

COMPENSATION? IF SUCH AN INSTRUMENT EXISTS, IS ITS APPLICATION BEING CONSIDERED IN THIS CASE?

A. THE U.S. GOVERNMENT HAS MADE ITS CONCERNS KNOWN THROUGH DIPLOMATIC CHANNELS. WE HOPE THAT THESE CONCERNS WILL BE RECOGNIZED AND THAT NO FURTHER ACTION ON OUR PART WILL BE REQUIRED.

D. Q: ON SEVERAL RECENT OCCASIONS, YOU AND OTHER U.S. SPOKESMEN HAVE SUGGESTED THE SASKATCHEWAN POLICY MAY HAVE SERIOUS REPERCUSSIONS WITH REGARD TO INVESTMENT IN CANADA. SASKATCHEWAN, ON THE OTHER HAND, HAS BEEN STATING POTASH WAS A SPECIAL CASE. DO YOU BELIEVE THE SASKATCHEWAN GOVERNMENT CLAIM AND, IF SO, DO YOU SEE IT AS YOUR EMBASSY'S RESPONSIBILITY TO PASS THAT MESSAGE ON TO WORRIED INVESTORS?

A. THE EMBASSY REPORTS FACTUALLY ON DEVELOPMENTS, INCLUDING OFFICIAL STATEMENTS BY PROVINCIAL AUTHORITIES. INVESTORS WILL DRAW THEIR OWN CONCLUSIONS ABOUT THE CONTINUED ATTRACTIVENESS OF SASKATCHEWAN AND, INDEED, CANADA AS A PLACE FOR INVESTMENT.

E. Q: CONSERVATIVE LEADER JOE CLARK, ON A RECENT VISIT TO WASHINGTON, SAID HE SAW POTASH AS HAVING "ACQUIRED SYMBOLIC SIGNIFICANCE." DO YOU CONCUR WITH THAT VIEW?

A. SASKATCHEWAN'S POTASH POLICY HAS ATTRACTED WIDESPREAD ATTENTION IN THE U.S. AS ONE OF A NUMBER OF UNILATERAL CANADIAN ACTIONS THAT HAVE HAD OR MAY HAVE AN ADVERSE IMPACT ON U.S. INTERESTS.

F. Q: TO MY KNOWLEDGE, THERE HAS NEVER BEEN A PUBLIC REPLY TO CANADA'S DIPLOMATIC NOTE ON THE ISSUE, A NOTE SENT IN RESPONSE TO A U.S. AIDE-MEMOIRE QUESTIONING THE SASKATCHEWAN POLICY. DO YOU HAVE A REBUTTAL? HAS THERE BEEN OR WILL THERE BE A FORMAL REBUTTAL?

A. THERE HAS BEEN ONE FORMAL EXCHANGE OF LIMITED OFFICIAL USE

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PAGE 04 OTTAWA 02750 072102Z

DIPLOMATIC COMMUNICATIONS ON POTASH. IN ADDITION, WE HAVE TRANSMITTED U.S. SENATE RESOLUTION 403 TO THE CANADIAN GOVERNMENT. WE BELIEVE THAT OUR CONCERNS ARE ON RECORD AND CANNOT PREDICT AT THIS TIME WHETHER THERE WILL BE FURTHER COMMUNICATIONS ON THE SUBJECT.

G. Q: IN THE PAST YEAR, TWO SASKATCHEWAN POTASH PRODUCERS HAVE OPTED OUT OF CANPOTEX, A MARKETING CONSORTIUM ORIGINALLY MEANT TO MARKET ALL SASKATCHEWAN POTASH IN THE OFF-SHORE (EXTRA-CONTINENTAL) MARKET. THERE HAVE BEEN SUGGESTIONS THE TWO COMPANIES WERE RESPONDING TO U.S. GOVERNMENT PRESSURE. WHAT IS YOUR RESPONSE TO THAT? HAS THERE, IN FACT, BEEN ANY SUGGESTION THAT INVOLVEMENT BY U.S.-OWNED COMPANIES IN ANPOTEX MIGHT BE IMPROPER OR IN CONTRAVENTION OF

AMERICAN ANTI-TRUST LAW?

A. (EMBASSY HAS NO INFORMATION ON WHAT USG HAS
DONE IN ANTI-TRUST FIELD TO DISCOURAGE U.S. SUBSIDIARIES
FROM PARTICIPATING IN CANPOTEX.)
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